Registered no: 2270217

Cantab Pharmaceuticals Research Limited

Annual report

for the year ended 31 December 1997

Cantab Pharmaceuticals Research Limited

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for the year ended 31 December 1997

Cantab Pharmaceuticals Research Limited

Directors and advisers

Non Executive Chairman

Sir John Collins

Executive directors

Mr J S Sikorski - Chief Executive
Mr N L Hart - Finance Director
Dr S C Inglis - Research Director

Non-executive directors

Dr S W Bunting
Mr J L Curnock Cook
Mr G H Fairtlough
Mr M Redmond
Dr P Haycock
Dr R Auty

Secretary and registered office

Mr N L Hart
184 Cambridge Science Park
Milton Road
Cambridge
CB4 4GN

Registered Auditors

Coopers & Lybrand
Abacus House
Castle Park
Cambridge
CB3 OAN

Legal Advisors to the Company

As to English Law:
McKenna & Co
Mitre House
160 Aldersgate Street
London
EC1A 4DD

As to US Law:
Latham & Watkins

London office:
One Angel Court
London
EC2R 7HJ

New York office:
885 Third Avenue, Suite 1000
New York 10022-4802

Cantab Pharmaceuticals Research Limited

Directors' report
for the year ended 31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activity

The principal activity of the company is the research and development of novel biopharmaceutical products based on advances in immunotherapy and gene delivery.

Review of business and future developments

1997 was a year of steady progress across all areas of the business. Moreover, it marked a turning point in the company's commercial development. The company implemented a highly focused strategic plan that will drive its future expansion by building upon the company's strengths, retaining higher value in its products and developing an integrated and efficient biopharmaceutical business.

Clinical progress

The company made important progress in advancing each of its three product programmes in clinical development.

DISC HSV
Having entered an extensive Phase I clinical trial programme in late 1996, during the past year, DISC HSV, the company's novel therapeutic and prophylactic vaccine for genital herpes, was shown to have an excellent safety profile and to be immunogenic at the dose levels tested. The Phase I programme is now well advanced with three of the planned five dose levels evaluated. The company's scientists will present data relating to DISC HSV's safety, tolerability and immunogenicity at the lower dose levels at the 8th International Congress for Infectious Diseases in Boston, Massachusetts in May of this year. Manufacture of the higher dose clinical material has been completed and Phase I testing at the higher dose levels will begin before mid-year.

Further to the clinical progress achieved in the DISC HSV programme, the company was awarded a US patent grant for DISC virus vaccines, the technology on which the DISC HSV product as well as other earlier stage research candidates are based.

TA-GW
Two significant clinical milestones were achieved during 1997 in the development programme for TA-GW, the therapeutic vaccine for genital warts. First and foremost, the company's development partner, SmithKline Beecham (SB) Biologicals re-formulated the product candidate to incorporate one of its proprietary adjuvants and then completed a Phase I trial. Further, SB Biologicals has commenced a Phase I/II dose ranging trial using the new formulation in genital warts patients in order to determine the optimal dose and dosing regime for the multi-centre, placebo-controlled Phase II trials scheduled to start later this year.

In addition, the company completed its development work on TA-GW with the conclusion of the second Phase IIa clinical trial in Southampton using the original alum-formulated version of the product. Although the trial was not placebo-controlled, it produced further favourable results which corroborate those achieved in the first Phase IIa trial, also with the alum-formulated product, conducted in Leeds during 1996.

With such encouraging early results established, we look forward to advancing the TA-GW clinical development programme, taking advantage of SB Biologicals' considerable vaccine experience and expertise with novel adjuvants to create the optimal product to bring to market.

TA-HPV
The TA-HPV cervical cancer vaccine programme made solid progress in several clinical trials running during the year. The multi-centre European Phase II trial conducted in conjunction with the European Organisation for the Research and Treatment of Cancer (EORTC) commenced on schedule in the second quarter. This trial is the first to evaluate the product in patients with early stage cervical cancer which is the patient population that the company and its collaborators believe is most appropriate for a treatment that is designed to stimulate the patient's own immune system to fight disease.

Positive immunological data in support of a strategy to target early stage disease were produced in a Phase I/II clinical trial completed in the second half of 1997 in patients with pre-invasive cervical disease. In this trial, one-third of the patients that had no immune response to the causative papillomavirus infection itself prior to vaccination, demonstrated a killer T cell immune response to the TA-HPV vaccine. The US Phase II trial conducted in association with the National Cancer Institute in patients with late stage disease was also completed in the third quarter and confirmed TA-HPV's good safety and tolerability. However, TA-HPV was unable to stimulate a significant immune response in these seriously ill patients. We believe this is because the immune systems of this patient group have been significantly impaired after such an extended battle with the disease.

Commercial progress

1997 began with two key events in the company's commercial development, both of which have significance in the context of the company's strategic plan to become a more integrated organisation. In March, the company completed a development and licence agreement with Glaxo Wellcome for DISC HSV, the novel vaccine for the treatment and prevention of genital herpes. With the dominant worldwide franchise in herpes therapy, we believe Glaxo Wellcome is the ideal partner to take DISC HSV forward through clinical development and on to the market. This collaboration is strategically significant for the company in that it marks the first partnering agreement through which the company has retained significant commercial rights, including product manufacture for worldwide sales and co-promotion in Europe. In the future, the company aims to continue with this strategy to retain more commercial rights and thus a greater financial return from its products.

It is a widely-held view that the trend toward consolidation in the pharmaceutical industry worldwide will continue, driven by the requirement for increased R&D productivity and

pipeline growth. Today, the company has partnerships with three of the largest global pharmaceutical companies, as well as an important regional specialist player. These collaborations are each centred around novel vaccine products that target major market opportunities and have been driven by strategic aims not only of the company, but also by those of its corporate partners. We believe that in each case, the factors behind a decision to partner with the company, whether it is to consolidate a market position, to reinforce a particular strategic emphasis in the pipeline or to access exciting new approaches to areas of clear importance to the pharmaceutical organisation, are unlikely to change in the event of a merger involving any one of our corporate partners.

A second important commercial event of 1997 was the formation of Phogen. Phogen is a new company that the company created jointly with Marie Curie Cancer Care (MCCC) to develop and exploit VP22, a protein that can act as an efficient molecular transport system for delivering useful molecules to cell nuclei. This property is the basis for a whole range of therapeutic possibilities and the company is funding the programme for an initial period of two years in return for an equal share of Phogen and exclusive rights to the technology for use in the area of immunotherapy of cancer and infectious diseases, the company's primary field of interest.

Since its inception in February 1997, Phogen has made very swift and exciting progress. While we recognise that it is still an early stage technology, company scientists have demonstrated the ability of VP22 to deliver a range of different therapeutically useful molecules, including the well-characterised tumour suppressor protein p53. Detailed results from these experiments are the subject of scientific articles planned for submission this year. Phogen scientists have also been able to produce bioactive VP22 in quantity using recombinant DNA expression technology, thus achieving a key objective for exploiting the full potential of VP22 as a delivery system. VP22 technology is highly complementary with The company's own proprietary gene delivery technology and Phogen scientists have demonstrated that functional VP22 can be engineered successfully into DISC HSV. These are major achievements that have provided us with an excellent platform to carry forward the development of VP22 technology during 1998.

Financial Performance

The company turned in strong financial results for 1997, with a closing cash position for the year of £41.8 million, compared to £36.3 million in 1996. This good performance was largely driven by the revenues received from Glaxo Wellcome following the completion of the DISC HSV development and licence agreement. Over the year, payments from Glaxo Wellcome comprised a £5 million upfront payment and approximately £2.5 million in contract development revenues. In addition, the cash position was boosted further through a £6 million equity investment by Glaxo Wellcome under the terms of the agreement.

Despite the significantly higher revenues for the year, the operating loss increased, in line with budget, to £6.0 million from £5.8 million in 1996 reflecting the company's growing investment in an advancing and expanding research and development portfolio. Net loss for the year was £3.2 million, reduced from £4.5 million for 1996. In 1998, we expect losses to increase as the company invests further, particularly in a number of its earlier stage research and development programmes. However, we will maintain a firm control on our financial performance.

Cantab Pharmaceuticals Research Limited

Business strategy

The company has taken significant steps forward to plan its long term and sustainable growth. Delete end of sentence. During the year, the company put in place a strategic plan broadly driven by two key objectives: first, to expand the product development pipeline in order to achieve critical mass and offset the inevitable risks of drug development and second, as illustrated through the terms achieved in the Glaxo Wellcome partnership for DISC HSV, to increase the company's involvement in the commercial development of its products in order to retain more value within the company.

Establishing critical mass within the product development pipeline is vital to the viability and sustainable future growth of any biotechnology company. It is crucial for success and even for survival, in the uncertain context of drug development, to manage a broad pipeline of research and development projects. As part of its strategic plan, the company has established a dedicated New Projects Team, headed by Dr John Shields, a member of the company's senior management team, to identify, research, and after a rigorous review and analysis, introduce new product opportunities and technologies within the company's area of expertise, namely immunotherapy and gene delivery.

To support our growth, the company, through landlords Trinity College, Cambridge, began construction of a new, state-of-the-art 49,300 square foot R&D facility on the Cambridge Science Park. The shell of the building is now complete and during the coming months of 1998, the laboratories will be fitted out and equipped for occupancy at the end of the year. Following the establishment of this new facility, The company will have the physical resources necessary to build its R&D pipeline and create critical mass.

Investing in our people

The company's people are its greatest assets. The expertise, experience, know-how and above all, commitment of our people is what makes and will continue to make this company a leader in its field. By fostering a dynamic and creative environment in which everyone is given the opportunity to make a significant contribution, The company seeks to harness and develop its most essential resource and to provide an environment capable of attracting and retaining the brightest and best quality staff. During the past year, with assistance and input from our team, The company has implemented a new performance development process. As a part of this process, we have invested considerably in training and developing our skill base, particularly in the area of project management. To recognise and reward achievements and developments, new performance related incentive and bonus schemes combine to make The company one of the most attractive and competitive employers in the sector.

Looking ahead

1998 promises to be another very important year for the company. We look forward to meeting a number of significant milestones, particularly in the clinical development of our most advanced product programmes. During the year, we expect that both SmithKline Beecham and Glaxo Wellcome will complete the necessary safety and immunogenicity studies to provide a firm platform from which to move our lead products into major, multi-

centre, controlled Phase II clinical trials. In addition, we plan to present data from the European Phase II clinical trial of TA-HPV, conducted in conjunction with the EORTC, and to file for regulatory approval ahead of starting a Phase I clinical trial with TA-CIN. The company aims to make real progress, both scientifically and commercially, in its DISC programmes for gene delivery. Finally, we look forward to the introduction of exciting new programmes into the R&D pipeline as the important investment in the New Projects effort begins to bear fruit.

Dividends

The directors do not recommend the payment of a dividend.

Research and development

Research and development undertaken by the company is written off to the profit and loss account as it is incurred.

Directors

The directors of the company at 31 December 1997, all of whom have been directors for the whole of the year ended on that date except where indicated were:

Sir John Collins, Chairman
Dr S W Bunting
Mr G H Fairtlough
Dr P Haycock
Mr M Redmond
Dr R Auty (appointed 1 October 1997)
Mr J L Curnock Cook
Mr N L Hart
Dr S C Inglis
Mr J S Sikorski

Directors' interests in shares of the company

None of the directors had any interests in the shares of the company at 1 January or 31 December 1997.

The interests of the following directors in the shares and share options of the company's holding company, Cantab Pharmaceuticals plc, are disclosed in the holding company directors' report:

Mr G H Fairtlough
Dr P Haycock
Dr S C Inglis
Mr M Redmond
Mr J S Sikorski
Sir John Collins
Mr N L Hart

Charitable contributions

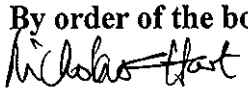
Charitable contributions totalling £2,900 (1996: £2,700) were made during the year.

Cantab Pharmaceuticals Research Limited

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



N L Hart
Company secretary

Cantab Pharmaceuticals Research Limited

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

N L Hart
Company secretary

Report of the auditors to the members of Cantab Pharmaceuticals Research Limited

We have audited the financial statements on pages 11 to 23.

Respective responsibilities of directors and auditors

As described on page 9 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its loss and total recognised losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers Lybrand

Chartered Accountants and Registered Auditors
Cambridge, 3 April 1998

Cantab Pharmaceuticals Research Limited

Profit and loss account
for the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Revenue	2	7,653	3,115
Operating expenses	3	(13,683)	(8,917)
Operating loss		(6,030)	(5,802)
Interest receivable and similar income	6	2,800	1,347
Interest payable and similar charges	7	(19)	(38)
Loss on ordinary activities before and after taxation	8,18	(3,249)	(4,493)

All items dealt with in arriving at operating loss relate to continuing operations.

The company has no recognised gains and losses other than those included in the losses above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before and after taxation stated above and their historical cost equivalents.

Cantab Pharmaceuticals Research Limited

Balance sheet
at 31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	10	2,597	3,427
Current assets			
Debtors	12	1,225	859
Short term investments	13	40,438	32,420
Cash at bank and in hand		1,318	3,853
		42,981	37,132
Creditors: amounts falling due within one year	14	3,257	1,669
Net current assets		39,724	35,463
Total assets less current liabilities		42,321	38,890
Creditors: amounts falling due after more than one year	15	59,564	52,884
Net assets		(17,243)	(13,994)
Capital and reserves			
Called-up share capital	16	247	247
Share premium account	18	4,764	4,764
Profit and loss account	18	(22,254)	(19,005)
Equity shareholders' funds	19	(17,243)	(13,994)

The financial statements on pages 11 to 23 were approved by the board of directors on 26 March 1998 and were signed on its behalf by:

J S Sikorski
Director

Cantab Pharmaceuticals Research Limited

Notes to the financial statements for the year ended 31 December 1997

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Associated undertakings

The associated undertaking is included in the balance sheet at cost. The company's share of the profits less losses and net liabilities of the associated undertaking are included in the consolidated financial statements of the ultimate parent company, Cantab Pharmaceuticals plc. The associated undertaking is not consolidated with Cantab Pharmaceuticals Research Limited as it is an intermediate parent company. The amounts are taken from the latest audited financial statements of the undertaking concerned which has the same accounting reference date.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The useful economic lives of plant, equipment, fixtures and fittings used for this purpose are between 3 and 15 years.

Leasehold buildings are amortised over 50 years or, if shorter, the period of the lease.

No depreciation is charged on assets in the course of construction until they have been completed and transferred to the appropriate fixed asset category.

Revenue recognition

Amounts received or receivable for services provided under research and development contracts and collaboration agreements are recognised as revenue when earned. Amounts received or receivable in respect of licence fees and milestone payments under the contracts and agreements are recognised as revenue when the licence rights are granted or the specific conditions stipulated in the contracts or agreements have been satisfied.

Research and development

Research and development costs are written off in the year in which they are incurred.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Where fixed assets are financed by leasing agreements which transfer to the company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets. Assets held under hire purchase contracts are depreciated over the useful lives of equivalent owned assets.

Pension scheme arrangements

The group operates a defined contribution pension scheme for its employees. The group also contributes to individual pension plans held by some of the employees. The pension costs charged represent contributions payable by the group to the fund and individual pension plans. Monthly payments have been charged in these accounts as part of employment costs.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Cash flow statement

The company has taken advantage of the exemption under Financial Reporting Standard No. 1 (revised 1996) not to prepare a cash flow statement as it is a wholly owned subsidiary. The consolidated financial statements of the parent company include a consolidated cash flow statement dealing with the cash flows of the group.

2 Revenue

	1997	1996
	£'000	£'000
Licence fees	5,050	3,000
Contract development	2,603	115
	7,653	3,115

Geographical analysis

	1997 £'000	1996 £'000
Europe	7,492	3,000
United States of America	111	115
Japan	50	-
	7,653	3,115

3 Net operating expenses

	1997 £'000	1996 £'000
Research and development expenses	11,044	7,426
Exceptional research and development expenses	1,266	-
	12,310	7,426
General and administrative expenses	1,288	1,491
Exceptional general and administrative expenses	85	-
	1,373	1,491
	13,683	8,917

Exceptional research and development and general and administrative expenses total £1,351,000 and relate to a write down of fixed assets during the period which is more fully explained in note 10.

4 Directors' emoluments

	1997 £'000	1996 £'000
Aggregate emoluments	529	683
Company pension contributions to money purchase schemes	40	26
Consideration paid to third parties for making available services of directors	48	33

Retirement benefits are accruing to three directors (1996: four directors) under money purchase schemes.

Highest paid director	1997 £'000	1996 £'000
Aggregate emoluments and benefits	183	370
Company pension contributions to money purchase schemes	17	10

5 Employee information

The average monthly number of persons (including executive directors) employed during the year was:

	1997 Number	1996 Number
By activity		
Research and development	104	78
General and administration	7	7
	111	85

	£'000	£'000
Staff costs in respect of these employees:		
Wages and salaries	3,626	3,014
Social security costs	355	302
Other pension costs	279	189
	4,260	3,505

6 Interest receivable and similar income

	1997 £'000	1996 £'000
Interest receivable	2,797	1,347
Foreign exchange gain	3	-
	2,800	1,347

7 Interest payable and similar charges

	1997 £'000	1996 £'000
On finance leases and hire purchase contracts	19	29
Foreign exchange loss	-	9
	19	38

8 Loss on ordinary activities before taxation

	1997 £'000	1996 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	1,920	414
Tangible fixed assets held under finance leases and hire purchase contracts	168	223
Auditors' remuneration for audit services	23	18
Auditors' remuneration for non-audit services	30	12
Hire of plant and machinery - operating leases, leases and equip. hire	73	49
Hire of other assets - operating leases, rent	443	379

9 Taxation

There is no corporation tax charge for the year. At 31 December 1997 there were estimated tax losses in the region of £24,000,000, although these have still to be agreed with the Inland Revenue. Due to the tax losses of the company there is no deferred tax liability.

Cantab Pharmaceuticals Research Limited

10 Tangible fixed assets

	Short leasehold buildings £'000	Assets in course of construction £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation					
At 1 January 1997	2,332	-	3,173	348	5,853
Additions	30	495	733	-	1,258
Disposals	-	-	(266)	(1)	(267)
At 31 December 1997	2,362	495	3,640	347	6,844
Depreciation					
At 1 January 1997	352	-	1,951	123	2,426
Charge for year	910	-	953	225	2,088
Eliminated on disposals	-	-	(266)	(1)	(267)
At 31 December 1997	1,262	-	2,638	347	4,247
Net book value					
At 31 December 1997	**1,100**	**495**	**1,002**	**-**	**2,597**
Net book value					
At 31 December 1996	1,980	-	1,222	225	3,427

The net book value of tangible fixed assets includes £Nil (1996: £170,000) in respect of assets held under finance leases and hire purchase contracts.

The company plans to relocate to new premises in 1998. As a result of the move, a number of fixed assets will remain at the company's existing premises principally because they have been incorporated into the building as improvements to the building or are items which will not be required in the new premises.

The company has written the net book value of these assets down to zero during the year ended 31 December 1997. The write down is included within the depreciation charge for the year and amounts to £1,351,000 of which £754,000 is included within short leasehold buildings, £391,000 is within plant and equipment and £206,000 is within fixtures and fittings.

11 Fixed asset investments

Associated undertakings

Cantab Pharmaceuticals Research Limited acquired its interest in Phogen Limited, a company incorporated in England and Wales, on 26 February 1997 (see note 17).

The company has a 45% interest in the ordinary shares and 50% of the voting rights of Phogen Limited whose accounting year end is 31 December. The company's investment at cost and net book value at 31 December 1997 was £45.

The principal business of Phogen Limited is to develop and commercialise drug delivery and gene therapy technology based on the cellular trafficking properties of the protein VP22. The funding of this programme is provided by the company.

12 Debtors

	1997	1996
	£'000	£'000
Amounts falling due within one year		
Trade debtors	37	44
Other debtors	76	74
Prepayments and accrued income	624	212
Interest receivable	488	529
	1,225	859

13 Short term investments

Short term investments comprise deposits which are not repayable on demand.

14 Creditors: amounts falling due within one year

	1997	1996
	£'000	£'000
Obligations under finance leases and hire purchase contracts	-	98
Trade creditors	619	513
Taxation and social security	261	215
Other creditors	116	1
Accruals and deferred income	2,261	842
	3,257	1,669

Other creditors includes £Nil (1996: £1,000) in respect of pension contributions payable.

15 Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Amounts owed to group undertaking	59,564	52,863
Obligations under finance leases and hire purchase contracts	-	21
	59,564	52,884

The loan from the group undertaking is interest-free and has no fixed repayment date.

Finance leases

The future minimum lease payments to which the company is committed under finance leases and hire purchase contracts are as follows:

	1997 £'000	1996 £'000
In one year or less	-	98
Between one and two years	-	12
Between two and five years	-	9
	-	119

16 Called up share capital

	1997 £'000	1996 £'000
Authorised		
22,600,000 ordinary shares of 5p each	1,130	1,130
Allotted, called up and fully paid		
4,951,000 ordinary shares of 5p each	247	247

17 Acquisitions

On 26 February 1997 the company acquired 45% of the share capital of Phogen Limited. The consideration for the transaction was £45 which at 31 December 1997 remained unpaid. The transaction has been accounted for using equity accounting in the financial statements of the company's parent, Cantab Pharmaceuticals Plc.

Apart from the initial share transactions, Phogen Limited has remained dormant throughout the period. The acquisition by Cantab Pharmaceuticals Research Limited represents the initial subscription for 900 5p 'A' ordinary shares in Phogen Limited under the terms of a joint venture agreement.

18 Share premium account and reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 1997	4,764	(19,005)
Retained loss for the year	-	(3,249)
At 31 December 1997	4,764	(22,254)

19 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Loss for the financial year	(3,249)	(4,493)
Opening shareholders' funds	(13,994)	(9,501)
Closing shareholders' funds	(17,243)	(13,994)

20 Capital commitments

	1997 £'000	1996 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	164	77

21 Financial commitments

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Expiring within one year	277	9	-	8
Expiring between two and five years inclusive	-	31	-	31
Expiring in over five years	134	-	382	-
	411	40	382	39

Under a collaboration and licence agreement dated 26 February 1997 with Marie Curie Cancer Care, the company is carrying out a joint research programme for the development of VP22 technology. The company will have exclusive rights to the technology for use in its field of immunotherapy.

The company is legally committed to provide funding under the terms of the agreement for this programme up to a total of £554,000 over a period of two years and six months commencing 26 February 1997. At 31 December 1997, the company had incurred costs of £277,000 on Phogen Limited's behalf. The balance of committed costs was therefore £277,000.

There is provision for the joint venture agreement to be terminated in the event of certain circumstances arising in which case the company would no longer be committed to provide funding.

22 Contingent liabilities

At 31 December 1997, the company was committed to the construction of new premises which are due to be completed in 1998. Under the terms of an agreement dated 28 July 1997, the company has entered into a bond to pay Trinity College the sum of £500,000 in the event that the company fails to complete the tenant works by 1 October 1999.

23 Related party transactions

The company has taken advantage of the exemption available to 90% subsidiaries under Financial Reporting Standard No. 8 ("Related Party Disclosures") not to disclose transactions with entities that are part of the group or joint venture companies because the consolidated financial statements in which the subsidiary is included are publicly available.

Cantab Pharmaceuticals Research Limited

24 Ultimate parent company

The directors regard Cantab Pharmaceuticals plc, a company registered in England and Wales, as the ultimate parent company and controlling entity. Copies of the parent's consolidated financial statements may be obtained from The Secretary, Cantab Pharmaceuticals plc, 184 Cambridge Science Park, Milton Road, Cambridge CB4 4GN.